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FISCAL IMPACT STATEMENT

LS 6870

BILL NUMBER: HB 1463

NOTE PREPARED: Dec 30, 2002

BILL AMENDED:

SUBJECT: Charity Gaming.

FIRST AUTHOR: Rep. Whetstone

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: The bill allows a school to obtain an annual license to conduct not more than 20 allowable events in a calendar year. The bill voids certain proposed rules regarding charity gaming. The bill also provides that the fee to renew an annual school license is \$200.

Effective Date: July 1, 2003.

Explanation of State Expenditures: *School Charity Gaming License:* The bill allows school corporations and accredited nonpublic schools to obtain an annual school charity gaming license to conduct up to 20 charity gaming events. Thus, the Department of State Revenue (DOR) could incur some additional administrative expenses. The extent of this impact likely would depend on the response of school corporations and nonpublic schools. There are 294 school corporations and, currently, 309 accredited nonpublic schools. However, administrative expenses relating to school-based charity gaming operations (as with administrative expenses for existing charity gaming operations) would be paid from money in the Charity Gaming Enforcement Fund. Under current statute unchanged by the bill, revenue from Charity Gaming License Fees and the Charity Gaming Excise Tax is deposited in the Charity Gaming Enforcement Fund to pay DOR administrative costs. The bill imposes both an initial license fee to be set by the DOR and a \$200 annual renewal fee. Under current statute, the initial license fee for organizations conducting charity gaming can not exceed \$25.

Charity Gaming Rules: The bill voids three charity gaming rules proposed by the DOR on July 1, 2002. The impact of the rules on charity gaming is indeterminable. The rules being voided are as follows:

(1) The bill voids a rule establishing a new definition of a "member" of an organization conducting charity

gaming. The rule provides a narrower definition of “member” for delineating those individuals who may work at an organization’s charity gaming events. Under current statute, an event worker must be a member in good standing of the organization for at least 30 days at the time of the event. Under the rule, an individual must be (a) qualified for membership in the organization, (b) entitled to vote in the election of organization officers or board members, and (c) eligible for election as an organization officer or board member and to participate in determining organization policies. The individual also must be able to show continuous active participation in the organization’s stated purpose or mission, including contribution of time, money, or talent to the organization and attendance at regular meetings.

(2) The bill voids two rules specifying restrictions and requirements for organizational uses of charity gaming receipts. In particular, the rules require licensed organizations to use at least specified minimum percentages of charity gaming gross receipts for the lawful purposes of the organization, or the acquisition and maintenance of real property involved in the operation of the organization. Current statute permits the DOR to specify the allowable expenditures of charity gaming receipts and also requires that all of an organization’s net charity gaming receipts be used only for the lawful purposes of the organization. The rule requires: (a) organizations with less than \$150,000 in annual gross charity gaming receipts to use at least 5% of the gross receipts for organization purposes; (b) organizations with \$150,000 to \$500,000 in annual gross charity gaming receipts to use at least 10% of the gross receipts for organization purposes; and (c) organizations with more than \$500,000 in annual gross charity gaming receipts to use at least 12% of the gross receipts for organization purposes. Under the rules, an organization failing to meet these minimum use standards would have its license suspended or revoked. The rules also require organizations to provide details of use of proceeds with the annual financial report to the DOR. In FY 2002, net charity gaming proceeds after total expenses overall represented about 12.6% of overall charity gaming gross receipts. From FY 1998 to FY 2001, this overall percentage ranged from a low of 11.7% to a high of 12.5%. For organizations holding annual bingo licenses in FY 2002 (these organizations accounted for 84% of the overall gross receipts during the fiscal year) net charity gaming proceeds represented only about 10.2% of gross charity gaming receipts. In comparison, this percentage ranged from 4.8% for annual bingo/pull tab licensees and 16.6% for pull tab licensees to 47.3% for festival licensees and 50.8% for raffle licensees. At the organization level in FY 2002, the net proceeds to gross receipts percentage for annual bingo licensees varied from 0% to 48%, with a sizeable number of organizations at or below the minimum use percentages required under the proposed rule.

Explanation of State Revenues: *School Charity Gaming License:* The bill establishes a separate charity gaming license allowing school corporations and accredited nonpublic schools to conduct up to 20 charity gaming events per year. The annual license fee would be \$200, except that the fee for an initial license would be set pursuant to current statute by the DOR. The bill could potentially increase revenue from Charity Gaming License Fees and the Charity Gaming Excise Tax. A total of 603 annual school licenses (294 school corporations and 309 accredited nonpublic schools) at \$200 per license would yield about \$121,000 annually. Initial licenses could yield as much as \$15,000 assuming an initial license fee of \$25 (the current statutory maximum for an initial charity gaming license). Additional charity gaming by school corporations and nonpublic schools also could increase overall sales in the state of charity gaming devices. This could increase revenue from the Charity Gaming Excise Tax, however, the extent of this increase is indeterminable. The actual impact on license fee and excise tax revenue would depend upon the response by school corporations and nonpublic schools. To the extent that some schools already conduct charity gaming events under current law the net impact on license fees and excise tax revenue could be diminished. The fiscal impact also could be reduced to the extent that charity gaming by school corporations and nonpublic schools under the new license substitutes for existing charity gaming operations of civic, educational, political, religious, senior citizens, or veterans organizations.

Background: Current law limits the fee for initial charity gaming licenses to \$25. Current law permits a bona fide civic, educational, political, religious, senior citizens, or veterans organization to hold a charity gaming license for purposes of conducting charity gaming events. Allowable charity gaming events consist of bingo, charity nights, raffles, door prize events, festivals, and sale of pull tabs, punchboards, and tip boards. In FY 2002, 2,184 charity gaming licenses were issued by the DOR resulting in \$4.1 M in license fees. The Charity Gaming License Fee is based on the total gross revenue earned from charity gaming by a licensed organization. The license fee can range from \$25 for organizations with less than \$15,000 in charity gaming gross revenue to \$25,000 for organizations with at least \$3.0 M in charity gaming gross revenue. In FY 2002, charity gaming events resulted in approximately \$583.1 M in gross revenue, with event expenses totaling about \$509.5 M. The net proceeds retained by the organizations conducting charity gaming totaled about \$73.6 M.

Businesses that manufacture, distribute, or sell charity gaming devices to organizations within the state must obtain a manufacturer's or distributor's license. The manufacturer's license fee is \$3,000 annually, and the distributor's license fee is \$2,000 annually. In FY 2002, 14 manufacturer's licenses and 58 distributor's licenses were issued by the DOR resulting in \$158,000 in revenue. In addition to the license fees, the Charity Gaming Excise Tax on pull tabs, punchboards, and tip boards is based on the wholesale price of these devices when sold to organizations by distributors and manufacturers. The Charity Gaming Excise Tax resulted in approximately \$1.6 M in revenue during FY 2002. License fee and excise tax revenue is deposited in the Charity Gaming Enforcement Fund to pay the charity gaming administrative costs incurred by the DOR. Revenue remaining in the Fund after payment of administrative costs is distributed quarterly to the Build Indiana Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: School Corporations.

Information Sources: *Charity Gaming Annual Reports, FY 1998-FY 2002*, Department of State Revenue.

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